

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THABAZIMBI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Thabazimbi Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of General Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Provision

7. The post-employment benefit plan for retired and current employees has not been recognised in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 19, *Employee benefits*. Due to the nature of the provision I was unable to perform alternative procedures to determine the value. The provision, employee cost and retained income are understated by an unquantifiable amount.
8. The Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets* requires that a provision should be made for the municipality's present obligation incurred as a consequence of a past event. A provision has not been made for the environmental rehabilitation costs of restoring the municipality's landfill sites. Provisions and property, plant and equipment are understated by an unquantifiable amount.

Property, plant and equipment

9. The records of the municipality was not sufficient and adequate to enable me to confirm and satisfy myself as to the existence and completeness of property, plant and equipment included in the financial statements amounting to R46.6 million.

Qualified Opinion

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Thabazimbi Local Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

12. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of the corrections on the prior year's audit findings and errors discovered during 2010 in the financial statements of the Thabazimbi Local Municipality at, and for the year ended, 30 June 2009.

Unauthorised expenditure

13. With reference to note 40 to the financial statements, unauthorised expenditure of R54.8 million was incurred by the municipality. The expenditure exceeded the limits of the different votes in the approved budget.

Irregular expenditure

14. With reference to note 42 to the financial statements, the municipality incurred irregular expenditure of R9.4 million as a result of the contravention of the supply chain management policy.

Material underspending of the budget

15. As disclosed in Appendix D(1), the municipality had an expenditure budget of R159.6 million and incurred operating expenditure of R152 million. This resulted in the budget being underspent by R7.6 million (4.8%)

ADDITIONAL MATTER PARAGRAPHS

16. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

19. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory requirements

Lack of implementation of a performance management system

20. The municipality did not implement a performance management system that is commensurate with its resources, best suited to its circumstances, and in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). The municipality does not have a performance management system that is in line with the municipality's integrated development plan.

Compliance with laws and regulations

MFMA

The Audit Committee was not functioning properly

21. Contrary to the requirements of section 166(2)(a) of the MFMA, the audit committee did not advise the municipal council and political office bearers on matters relating to, *inter alia*, internal financial control and internal audit, compliance with the MFMA and performance management.
22. Contrary to the requirements set out in section 166(2)(c) of the MFMA, the audit committee did not respond to the council on the prior year's audit report.

- Leadership

Oversight responsibility

The accounting officer did not in all instances exercise oversight responsibility over reporting and compliance with laws and regulations

Tone at the top

Integrity and ethical values are not developed and understood and do not set the standard for sound corporate governance, as a councillor did not declare its interests.

- Financial and performance management

Quality, reliable annual financial statements

The financial statements were subjected to material amendments resulting from the audit.

- Governance

Audit Committee

The audit committee did not in all instances fulfil its responsibilities as set out in legislation

Auditor-General.

Polokwane

30 November 2010



AUDITOR-GENERAL
SOUTH AFRICA

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